

Inflation Review

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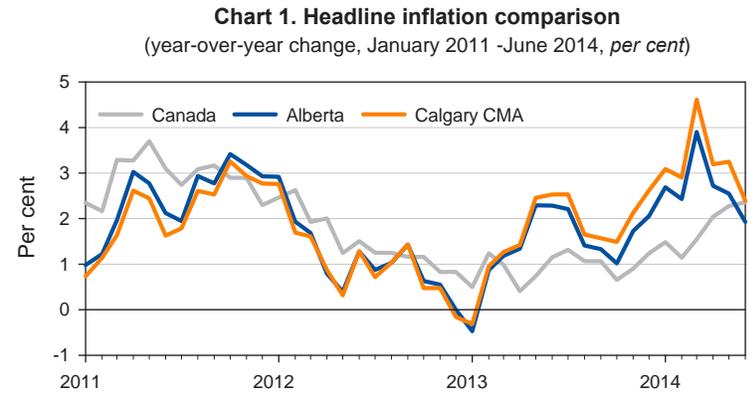
July 18, 2014

Calgary's headline inflation rate decelerated in June

In June, the headline inflation rate for the Calgary census metropolitan area (CMA) decelerated to 2.4 per cent year-over-year, after reaching 3.2 per cent in May. In Alberta, inflation slowed to 1.9 per cent but accelerated to 2.4 per cent in Canada (Chart 1). Solid gains were observed in food, which was 4.3 per cent more expensive than last year. Food purchased from stores was up 5.0 per cent and restaurant bills were up 2.7 per cent. Calgarians paid 1.8 per cent more for transportation, but gasoline prices contracted by a modest 0.6 per cent. Shelter costs slowed to 2.9 per cent in June as electricity prices retreated 13.3 per cent after the last month's 18.8 per cent spike. Rented accommodation costs advanced 3.1 per cent and owned accommodation, 5.9 per cent.

Another boom-time crunch in Calgary's rental housing?

In recent months, Calgary's inflation rate has been boosted by higher shelter prices, namely in the owned accommodation and water, fuel and electricity categories. Costs in rental housing are also on the rise. The residential market picked up steam in June and both the number of sales and average sale prices climbed when compared to last year's data. Similarly, the apartment rental market has tightened; according to the CMHC, the vacancy rate was hovering around 1.4 per cent in April 2014. With the local economy restoring itself to pre-recession conditions, more people are moving to Calgary to look for jobs and are calling this city home. The large influx of net migrants is a key driver for rental housing demand, putting downward pressure on the vacancy rate



Source: Statistics Canada, Corporate Economics, July 2014

and upward pressure on rents. Rent for an average two-bedroom apartment was \$1,267 per month in April, a jump of 5.4 per cent from last year. Rental units were added to the market over the last two years, and more are under construction at the moment, but this will not be enough to alleviate the rental housing shortage in the short-term. So far, Calgary's vacancy rate has yet to hit its pre-recession low of 0.5 per cent in 2006.

Going forward...

The year-to-date headline inflation rate for the first six months of the year in Calgary came in at 3.2 per cent, which was particularly high when compared to last year's rate of 1.4 per cent. Food prices remain one of the primary drivers of consumer price increases, as they continue to be driven up by exchange rate pass-through. Meanwhile, increasing employment opportunities have continued to draw migrants to settle in Calgary, adding demand for housing, and thus pushing up expenses for accommodation. Apart from the highly volatile food and energy categories, Calgary's core inflation was 3.0 per cent in June and 2.9 per cent year-to-date. Overall, the inflation rate should trend downwards in the coming months as the transitory effects of this winter's energy price spike dissipate.

Next release: August 22, 2014

Inflation Rates

	Relative Importance (%)*	Year-over-year			Year-to-date		
		Jun-14 (%)	May-14 (%)	Jun-13 (%)	Jun-14 (%)	May-14 (%)	Jun-13 (%)
Calgary: All-items	100.00	2.4	3.2	2.5	3.2	3.4	1.4
Calgary: All-items excluding food and energy	76.49	3.0	3.2	1.9	2.9	2.9	1.3
Food	15.99	4.3	3.1	1.6	3.2	2.9	2.3
Shelter	26.56	2.9	6.2	4.6	6.1	6.7	2.4
Rented accommodation	5.40	3.1	3.0	3.9	3.2	3.2	3.1
Owned accommodation	16.24	5.9	6.1	2.8	5.7	5.6	1.9
Water, fuel and electricity	4.84	(8.6)	11.4	13.1	11.8	16.1	3.8
Household operations, furnishing and equipment	12.27	2.5	2.7	2.2	2.4	2.4	2.0
Clothing and footwear	5.88	1.9	1.3	1.2	1.3	1.2	(0.1)
Transportation	20.44	1.8	3.3	3.3	3.3	3.7	0.1
Gasoline	3.81	(0.6)	3.9	9.5	4.9	6.2	0.0
Health and personal care	4.65	1.4	1.9	(0.4)	1.0	0.9	0.1
Recreation, education and reading	11.37	2.8	2.6	1.0	2.6	2.5	0.6
Alcoholic beverages and tobacco products	2.83	3.9	4.1	1.2	3.5	3.4	1.4
Alberta: All-items	100.00	1.9	2.5	2.3	2.7	2.9	1.2
Alberta: All-items excluding food and energy	76.49	2.6	2.5	1.6	2.4	2.3	1.2
Canada: All-items	100.00	2.4	2.3	1.2	1.8	1.7	0.8
Canada: All-items excluding food and energy	74.85	1.6	1.5	0.9	1.3	1.3	0.8

Source: Statistics Canada, Corporate Economics, July 2014

* 2011 CPI basket weights at January 2013 prices, date modified March 27, 2013

Figures in red and parentheses indicate negative.

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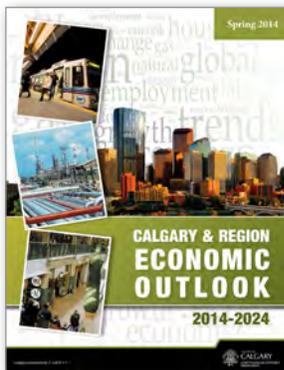
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Sources: Statistics Canada, CMHC, Corporate Economics.

